



Business Valuation: Overview and Case Study

Exit Planning Exchange – Connecticut Chapter

January 22, 2016

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Business Valuation: Overview and Case Study

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Presentation Topics

- Need for valuation services
- Valuation Fundamentals
 - Standards of Value
 - Premise of Value
 - Valuation Methods
- Case Study

Potential Needs for Valuation Services

- Mergers, acquisitions, and divestitures
- Succession and business planning
- Shareholder buyouts
- Litigation (e.g., shareholder or post-M&A disputes)
- Corporate financial and tax reporting

Standards of Value

- Fair Market Value
- Fair Value
- Investment Value / Intrinsic Value

Standards of Value: Fair Market Value

- Tax standard
- Other contexts depending on the governing law
- Treasury Regulations, 26 CFR 20.2031-3: “[T]he net amount which a willing purchaser, whether an individual or a corporation, would pay for the interest to a willing seller, neither being under any compulsion to buy or to sell and both having reasonable knowledge of relevant facts.”

Standards of Value: Key Fair Market Value Concepts

- Hypothetical buyer and seller, not specific
- No undue influence to buy or sell
- Knowledgeable buyer and seller
- Consider seller's perspective, not just buyer's
- Consideration of lack of control and lack of marketability discounts normally appropriate
- Strategic premiums typically ignored
 - Example: Real property subsequently acquired by adjacent property owner

Standards of Value: Fair Value

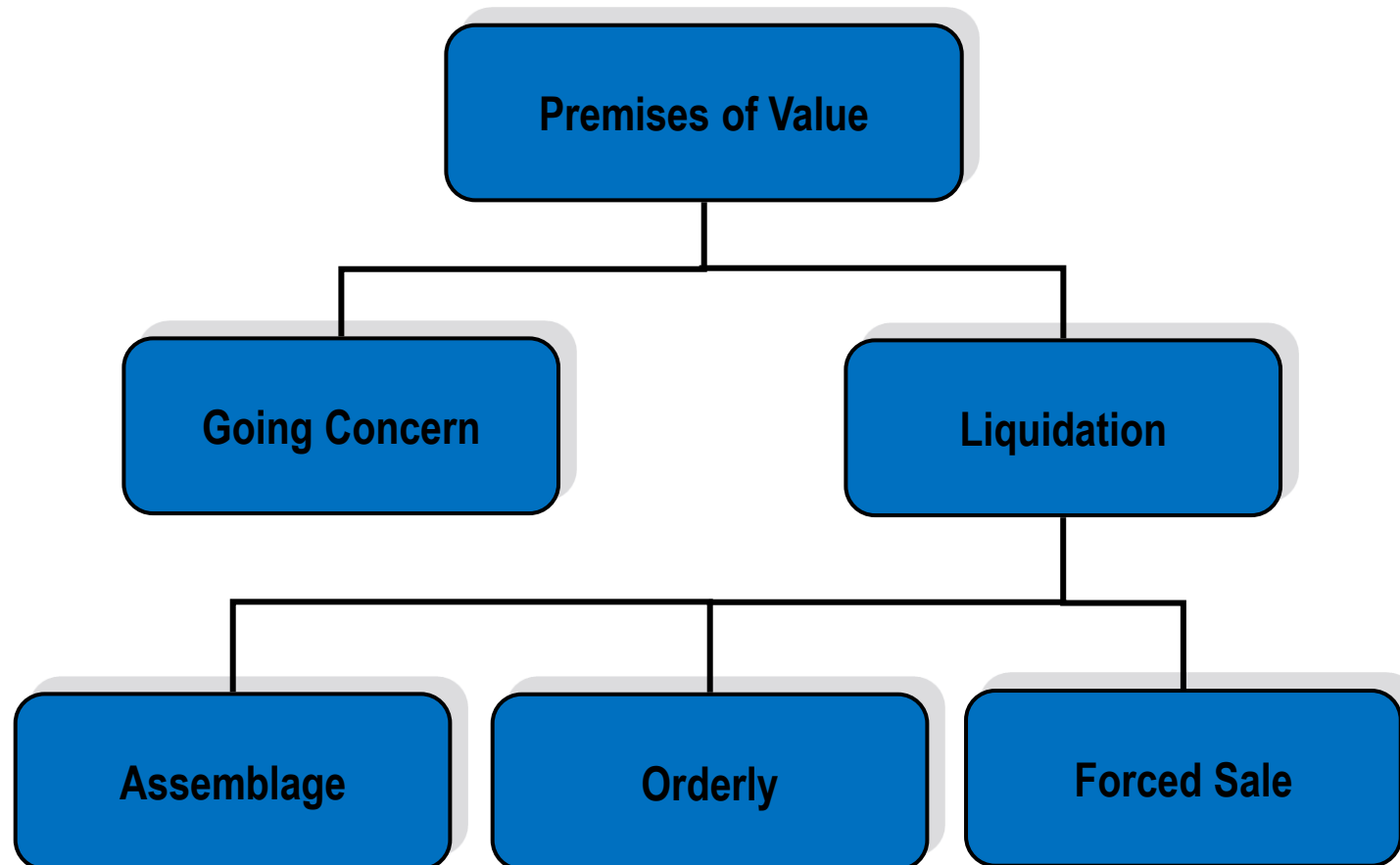
- Often relevant in litigation context
 - Definition varies from state to state
 - Valuation discounts may or may not apply
- Also relevant in a financial reporting context
 - Accounting Standards Codification Topic 820, *Fair Value Measurement* (“FASB ASC 820”)

Standards of Value: Investment Value

- Often relevant in merger
- Value to a specific buyer – therefore a strategic premium may be relevant
 - Cost saving synergies
 - Revenue enhancement synergies
 - Tax synergies
 - Cost of capital and capital allocation synergies

Premises of Value

- “Value under what set of transactional conditions?”



Business Enterprise Value: Typical Balance Sheet

ABC Company

Assets		Liabilities and Equity	
Current Assets		Current Liabilities	
Cash	\$ 50	Accounts Payable	\$ 150
Accounts Receivable	250	Accrued Expenses	250
Inventory	200		<u>400</u>
	<u>500</u>	Long-Term Liabilities	
		Interest-Bearing Debt	450
Net Property and Equipment	600	Shareholders' Equity	250
Total Assets	<u><u>\$ 1,100</u></u>	Total Liabilities and Equity	<u><u>\$ 1,100</u></u>

Business Enterprise Value: Book Value Basis

ABC Company

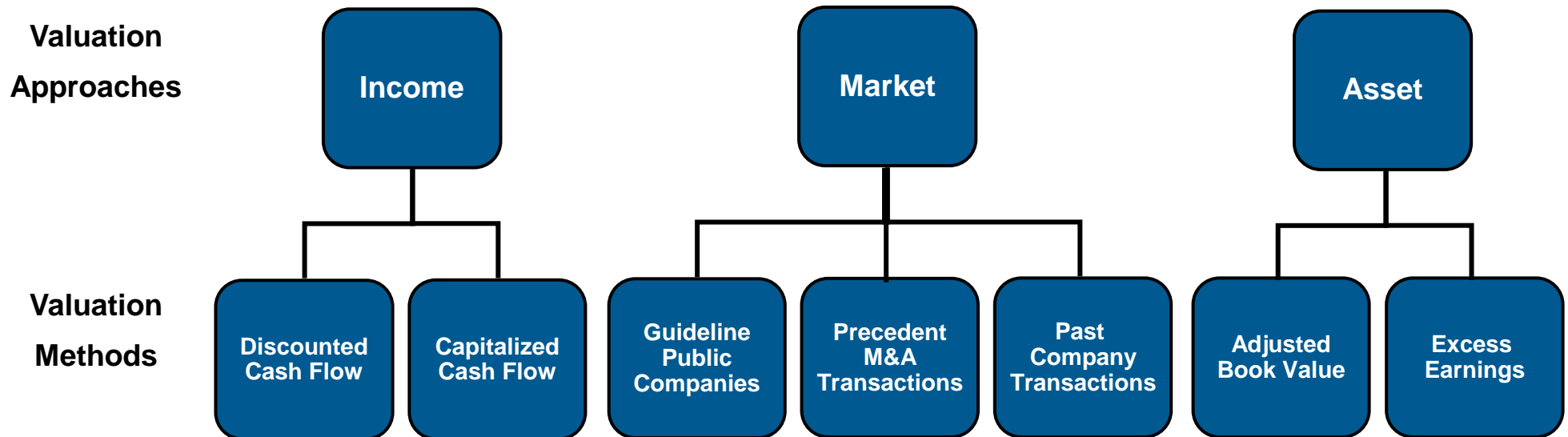
Assets		Liabilities and Equity	
Current Assets		Current Liabilities	
Cash	\$ 50	Accounts Payable	\$ 150
Accounts Receivable	250	Accrued Expenses	250
Inventory	200		<u>400</u>
	<u>500</u>	Long-Term Liabilities	
		Interest-Bearing Debt	450
Net Property and Equipment	600	Shareholders' Equity	250
Intangible Assets	???		
Total Assets	<u><u>\$ 1,100</u></u>	Total Liabilities and Equity	<u><u>\$ 1,100</u></u>

Business Enterprise Value: Market Value Basis

ABC Company

Assets		Liabilities and Equity	
Current Assets		Current Liabilities	
Cash	\$ 50	Accounts Payable	\$ 150
Accounts Receivable	250	Accrued Expenses	250
Inventory	200		<u>400</u>
	500	Long-Term Liabilities	
		Interest-Bearing Debt	450
Net Property and Equipment	675		
		Shareholders' Equity	550
Intangible Assets	225		
Total Assets	\$ 1,400	Total Liabilities and Equity	\$ 1,400

Business Valuation 101



Income Approach

- Methods:
 - Discounted Cash Flow (DCF)
 - Capitalized Cash Flow (CCF)
- Different methods to arrive at present value of future income
- Fundamental concept: Value is the present worth of future benefits

Discounted Cash Flow Method

	<u>Year 1</u>	<u>Year 2</u>	<u>Year 3</u>	<u>Residual</u>
Distributable Cash Flow	\$ 50	\$ 55	\$ 61	\$ 64
Present Value (15% WACC)	\$ 47	\$ 45	\$ 43	
Total PV of Cash Flows (Years 1-3)	134			
Residual Cash Flow Value	448			
Business Enterprise Value	<u>\$ 582</u>			
		Capitalization Rate		10%
		Residual Value		635
		PV of Residual		448

What is Distributable Cash Flow?

= Available Cash Flow

- Adjust for Non-Arm's Length Transactions

- Owners' Compensation
- Real Estate Leases
- Transactions with Related Entities
- Loans from Owners

- Adjust for Nonrecurring Events

What is Capitalization Rate?

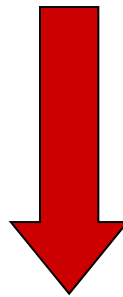
= Rate of Return – Growth Rate

= 15% - 5%

$$\frac{50}{(1+15\%)^1} + \frac{50 * (1+5\%)^1}{(1+15\%)^2} + \frac{50 * (1+5\%)^2}{(1+15\%)^3} + \dots$$

The Inverse of a Capitalization Rate is a Multiple

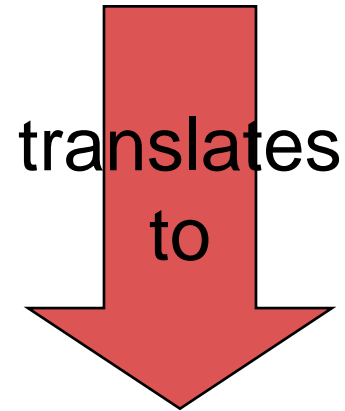
$$\frac{\$50}{10\%} = \$500 \quad \& \quad \$50 * 10x = \$500$$



$$\frac{\$50}{10\%} = \$50 * 10x$$

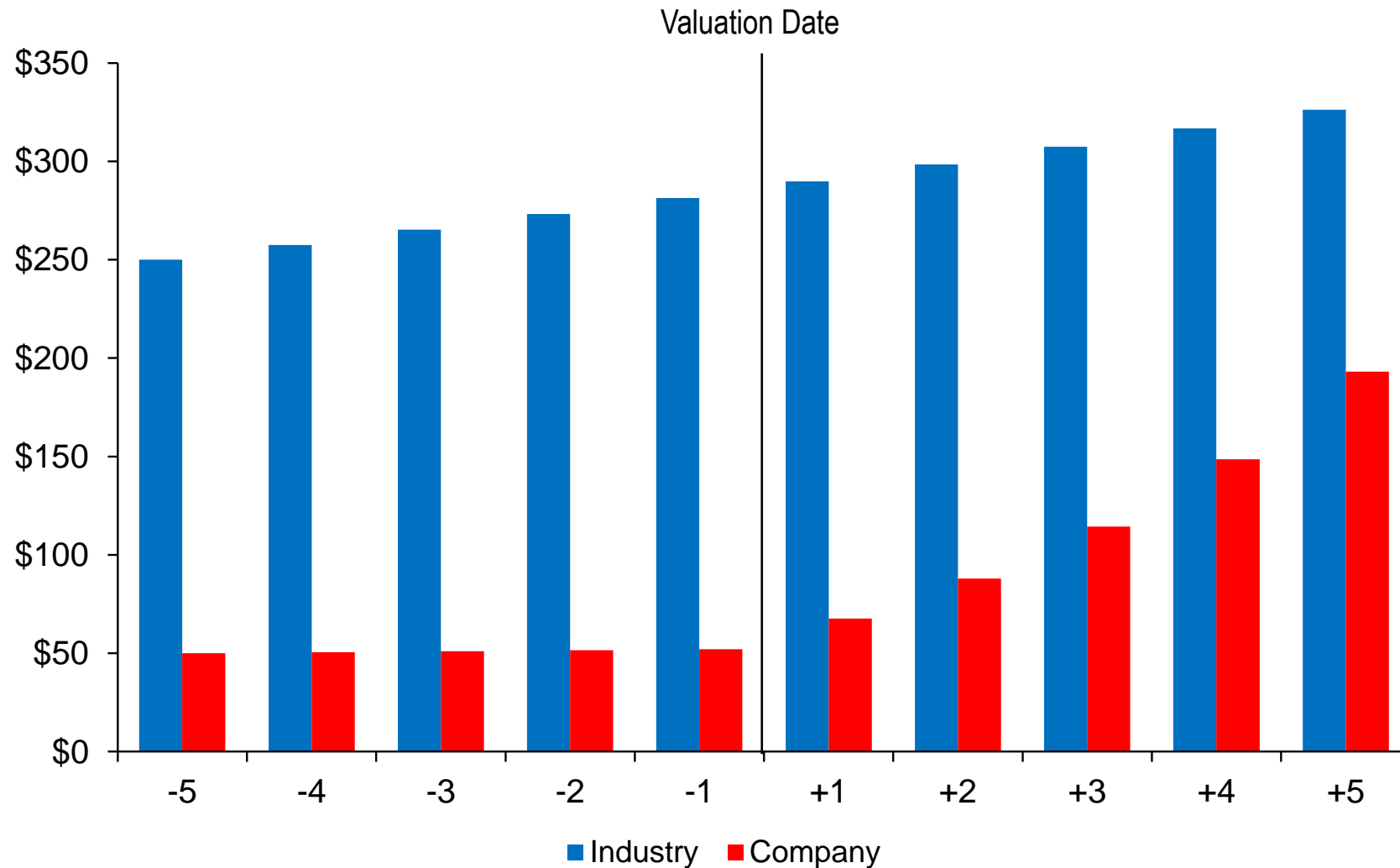
Obvious Problems with Rules of Thumb

“Private companies trade at 4x to 6x earnings.”



“All private companies have the same risk and the same growth prospects.”

Common Valuation Pitfalls: *Company Growth vs. Industry Growth*



Common Valuation Pitfalls: *Cash Flow vs. Rate of Return*

- After-Tax vs. Pre-Tax
- Debt-Free vs. Equity
- Nominal vs. Real

Reviewing Valuation Report – Other Income Approach Issues

- Are the discount or capitalization rates adequately supported both theoretically and by market data?
- Is the near-term projected growth of earnings and cash flow reasonable?
- Are projected margins reasonable relative to actual historical performance and relative to the market?
- Has long-term growth been assessed properly?

Reviewing Valuation Report – Other Income Approach Issues

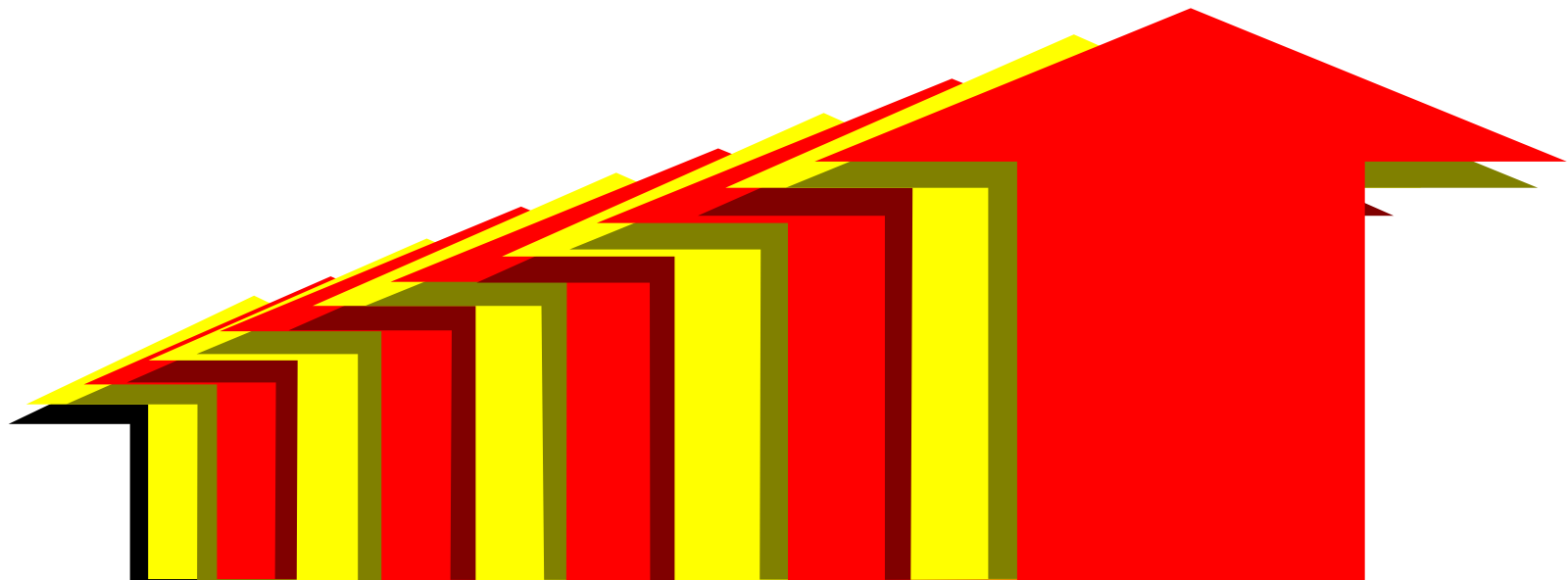
- How sensitive is the analysis to changes in certain of the assumptions?
 - Sales growth
 - Margins
 - Cost of capital
 - Long-term growth rate
- Is the dilutive impact of stock options incorporated in the analysis?

Guideline Public Company Analysis

	<u>Enterprise Value / EBITDA</u>
Public Company Multiples	
High	9.0x
Average	6.0x
Median	5.5x
Low	3.5x
Selected Multiple	5.0x
Subject Company EBITDA	<u>\$ 100</u>
Business Enterprise Value	<u><u>\$ 500</u></u>

Market Comparable Pitfalls: *Differences Between Comparable Companies*

- Market capitalization (size)
- Future growth prospects in cash flow
- Risk factors



Reviewing Valuation Report: Basic Market Approach Considerations

- Is the criteria used to select peer group publicly traded or merged and acquired companies clearly explained?
- Is the population from which companies or transactions are drawn clearly explained?
- Does the report explain why certain pricing multiples are relied upon over others?
 - Enterprise Value/EBITDA
 - Price/Earnings
 - Price/Sales

Case Study – PeopleCo Manufacturing

- Income Approach
- Market Approach
 - Guideline Public Companies
 - Precedent M&A Transactions
- Reconciliation
- Planning Opportunities - Discounts

Case Study – Income Approach

**PeopleCo Manufacturing Co.
Income Approach
Buildup of Capitalization Rate
Exhibit 4**

Cost of Equity Capital:

Appraisal date safe rate	4.00%	20-year maturity on 30-year Treasury Bond Rate as of valuation date. Normalized to four percent, which is expected long-term risk-free (safe) rate.
Equity risk premium - stocks over bonds	5.00%	Long Horizon Equity Risk Premium (conditional) based on NYSE Market benchmarks per Duff & Phelps 2015 Valuation Handbook.
Industry risk premium	-1.40%	Duff & Phelps 2015 Valuation Handbook
Average market return on valuation date	7.60%	
Risk premium for size:	5.78%	10th Decile Size Premium per Duff & Phelps 2015 Valuation Handbook (for market capitalizations less than \$301M).
Average market return for small stocks	13.38%	
Specific qualitative risk analysis	0.00%	
Total cost of equity rate (A)	13.38%	

Source:

Cost of Debt Capital:

Average cost of debt	5.25%	Estimated cost of debt as of Valuation Date
Tax rate	39.00%	Average ETR for Company as of Valuation Date
Total after-tax cost of debt rate (B)	3.20%	

Capital Structure of Company

Equity/invested capital (C)	80.00%	Based on industry weighting as of valuation date.
Debt/invested capital (D)	20.00%	
	100.00%	
Weighted-average cost of capital	11.34%	= (A)x(C) + (B)x(D)
Sustainable average growth rate	3.50%	
Capitalization rate (next year)	7.84%	
Convert to rate for current year (divide by 1 + growth rate)	1.035	
Capitalization Rate (Rounded)	7.60%	

(To Exhibit 2)

Case Study – Income Approach

PeopleCo Manufacturing Co.
Income Approach
Normalization of Earnings and Conversion to Gross Cash Flow
Exhibit 3

	12/31/12	12/31/13	12/31/14	12/31/15
Net Operating Income (Exhibit 12)	\$ 2,907	\$ 2,989	\$ 4,179	\$ 6,987
Normalizing Adjustments:				
Owner's compensation	850	850	850	850
Replacement compensation	(342)	(357)	(372)	(393)
Private company perquisites	150	150	150	150
Total Additions	658	643	628	607
Normalized Earnings Before Income and Tax (EBIT)	3,565	3,632	4,807	7,594
Effective Tax Rate (39%)	(1,390)	(1,416)	(1,875)	(2,962)
Normalized Earnings After Tax	2,175	2,216	2,932	4,632
Convert to Gross Cash Flow:				
Add: Depreciation and amortization	549	720	913	1,020
Normalized Gross Cash Flow - after tax	\$ 2,724	\$ 2,936	\$ 3,845	\$ 5,652
Weight	-	-	-	1
Weighted Gross Cash Flow	-	-	-	5,652
Sum of Weighted Gross Cash Flows				\$ 5,652
Total weights				1
Weighted-Average Normalized Gross Cash Flow				5,652
Convert to Net Cash Flow:				
Reserve for capital expenditures				(1,000)
Working capital needs				(250)
Weighted-Average Normalized Net Cash Flow				\$ 4,402
				(To Exhibit 2)

Case Study – Income Approach

**PeopleCo Manufacturing Co.
Income Approach
Determination of Equity Value
Capitalization of Normalized Cash Flow
Exhibit 2**

Weighted-Average Normalized Net Cash Flow (From Exhibit 3)	\$ 4,402
Capitalization Rate (From Exhibit 4)	<u>7.60%</u>
Indicated Market Value of Invested Capital (Controlling, Marketable)	<u><u>\$ 57,926</u></u>

Case Study – Market Approach

PeopleCo Manufacturing Co.
Market Approach
Guideline Merger and Acquisition Method Transactions
Exhibit 6

Sale Date	Target	Acquirer	Market Value of Invested Capital	Sales (LTM)	EBITDA (LTM)	MVIC/Sales	MVIC/EBITDA
11/18/15	Breeze-Eastern Corporation	TransDigm Group	\$ 168.2	\$ 97.9	\$ 21.6	1.72	7.80
09/23/15	Landmark Aviation	BBA Aviation	2,065.0	708.0	115.0	2.92	17.96
08/08/15	Precision Castparts Corp.	Berkshire Hathaway Inc.	37,200.0	9,897.0	2,952.4	3.76	12.60
07/27/15	Cytec Industries Inc.	Solvay SA	6,178.5	2,014.7	299.4	3.07	20.64
07/23/15	Magnetek Inc.	Columbus McKinnon Corporation	165.4	113.6	13.7	1.46	12.05
07/19/15	Sikorsky Aircraft Corporation	Lockheed Martin Corporation	9,000.0	n/a	692.3	n/a	13.00
06/29/15	Spectronix Ltd.	Emerson Process Management	73.9	41.1	8.0	1.80	9.21
06/01/15	Kratos Electronics Products Division	Ultra Electronics Holdings	265.0	n/a	22.0	n/a	12.05
03/26/15	Sargent Aerospace & Defense	Roller Bearing Co. of America, Inc.	500.0	n/a	37.5	n/a	13.33
02/23/15	Telair Cargo Group	TransDigm Group	725.0	n/a	60.4	n/a	12.00
02/06/15	Exelis Inc.	Harris Corporation	4,683.2	3,277.0	515.0	1.43	9.09
11/12/14	Provincial Aerospace Ltd.	Exchange Income Corp.	217.8	174.1	41.0	1.25	5.31
09/29/14	Barco NV (A&D Display Business)	Esterline Technologies	188.9	206.6	27.5	0.91	6.86
09/22/14	ALLFAST Fastening Systems, Inc.	TriMas UK Aerospace	357.0	55.0	20.4	6.49	17.50
06/09/14	Hittite Microwave Corporation	Analog Devices, Inc.	1,954.7	276.7	117.2	7.06	16.69
05/20/14	Aeroflex Holding Corp.	Cobham plc	1,459.9	639.9	122.5	2.28	11.92
04/14/14	ThyssenKrupp Marine Systems	SAAB AB	51.9	264.7	5.3	0.20	9.80
04/01/14	UEC Electronics, LLC	Arotech Corporation	40.0	32.4	5.8	1.23	6.89
03/27/14	Avincis Mission Critical Services	Babcock International	2,700.0	805.1	186.6	3.35	14.47
02/03/14	APPH Ltd. and APPH Wichita, Inc.	Heroux-Devtek Inc.	124.0	77.0	12.5	1.61	9.92
01/30/14	Haas Group International Inc.	Wesco Aircraft Holdings	706.4	595.1	37.0	1.19	19.10
01/20/14	Eaton Corporation plc (a)	Safran SA	270.0	102.0	14.0	2.65	19.29
		High	37,200	9,897	2,952	7.06	20.64
		90th Percentile	6,029	2,393	493	4.58	18.99
		75th Percentile	2,037	691	121	3.03	16.13
		25th Percentile	173	99	16	1.30	9.36
		10th Percentile	79	51	8	1.11	6.98
		Low	40	32	5	0.20	5.31
		Mean	3,141	1,077	242	2.47	12.61
		Median	429	236	37	1.76	12.05
		Standard Deviation	15,868	4,172	1,275	0.97	5.09
		Coefficient of Variation				0.39	0.40

Case Study – Market Approach

PeopleCo Manufacturing Co.
Market Approach
Guideline Merger and Acquisition Method - Value
Exhibit 5

Multiple	Subject Company	Adjusted Median Multiple	Indicated MVIC
MVIC / Revenue	\$ 47,095	1.2954	61,007
MVIC / EBITDA	\$ 8,614	9.3556	80,589
Indicated MVIC (Controlling, Marketable)			<u>\$ 70,798</u>

Case Study – Market Approach

PeopleCo Manufacturing Co.
Market Approach
Guideline Public Company - Adjusted Revenue Multiple (in 000's)
Exhibit 8

Company Name	Ticker Symbol	Stock Price	Original Diluted Average Shares (unit)	Market Capitalization	Minority Interest (TTM)	Total Debt (TTM)	Market Value of Invested Capital (MVIC)	Revenue (TTM)	EBITDA	MVIC/ Revenue	MVIC/ EBITDA	Expected Return for Guideline Public Company	Expected Return for Subject Company	Size Adjustment	Adjusted MVIC/ Revenue	Adjusted MVIC/ EBITDA
United Technologies Corporation	UTX	88.99	887,020,000	78,935,910	1,526,000	22,667,000	103,128,910	63,978,000	11,311,000	1.6	9.1	10.5%	20.6%	51%	0.8	4.6
The Boeing Company	BA	130.95	669,980,000	87,733,881	46,000	9,016,000	96,795,881	97,009,000	10,147,000	1.0	9.5	10.4%	20.6%	50%	0.5	4.8
Honeywell International Inc.	HON	94.69	770,690,000	72,976,636	136,000	10,567,000	83,679,636	38,865,000	7,432,000	2.2	11.3	10.6%	20.6%	51%	1.1	5.8
Northrop Grumman Corporation	NOC	165.95	182,380,000	30,265,961	-	6,417,000	36,682,961	23,940,000	3,639,000	1.5	10.1	11.8%	20.6%	57%	0.9	5.8
Raytheon Company	RTN	109.26	301,100,000	32,898,186	201,000	5,334,000	38,433,186	23,062,000	3,526,000	1.7	10.9	11.7%	20.6%	57%	0.9	6.2
Textron Inc.	TXT	37.64	273,670,000	10,300,939	-	3,772,000	14,072,939	13,596,000	1,606,000	1.0	8.8	13.3%	20.6%	64%	0.7	5.7
Finmeccanica SpA	FNC	11.19	577,920,000	6,466,925	-	10,763,000	17,229,925	13,936,000	1,523,000	1.2	11.3	13.9%	20.6%	68%	0.8	7.6
Lockheed Martin Corporation	LMT	207.31	307,300,000	63,706,363	-	8,412,000	72,118,363	45,745,000	6,500,000	1.6	11.1	10.8%	20.6%	52%	0.8	5.8
General Dynamics Corporation	GD	137.95	316,130,000	43,610,134	-	3,413,000	47,023,134	32,022,000	4,608,000	1.5	10.2	11.3%	20.6%	55%	0.8	5.6
SAAB AB	SAAB B	224.00	103,590,000	23,204,160	-	9,133,000	32,337,160	24,541,000	1,535,000	1.3	21.1	12.2%	20.6%	59%	0.8	12.5
Allegheny Technologies Inc.	ATI	14.18	109,210,000	1,548,598	99,800	1,505,600	3,153,998	4,028,200	201,400	0.8	15.7	15.9%	20.6%	77%	0.6	12.1
HEICO Corporation	HEI	48.88	26,910,000	1,315,361	83,408	367,598	1,766,367	1,188,648	277,497	1.5	6.4	16.1%	20.6%	78%	1.2	5.0
Precision Castparts Corp.	PCP	229.71	137,590,000	31,605,799	29,000	4,998,000	36,632,799	9,662,000	2,669,000	3.8	13.7	11.8%	20.6%	57%	2.2	7.8
Rockwell Collins Inc.	COL	81.84	131,310,000	10,746,410	5,000	2,128,000	12,879,410	5,244,000	1,275,000	2.5	10.1	13.2%	20.6%	64%	1.6	6.5
Hexcel Corp.	HXL	44.86	94,490,000	4,238,821	-	596,400	4,835,221	1,868,100	404,500	2.6	12.0	14.5%	20.6%	70%	1.8	8.4
Triumph Group, Inc.	TGI	42.08	49,320,000	2,075,386	-	1,599,695	3,675,081	3,912,106	351,653	0.9	10.5	15.5%	20.6%	75%	0.7	7.8
Curtiss-Wright Corporation	CW	62.42	45,720,000	2,853,842	-	958,905	3,812,747	2,189,514	382,486	1.7	10.0	15.1%	20.6%	73%	1.3	7.3
Woodward, Inc.	WWD	40.70	63,230,000	2,573,461	-	852,430	3,425,891	2,038,303	341,048	1.7	10.0	15.2%	20.6%	74%	1.2	7.4
Moog Inc.	MOG.A	54.07	33,330,000	1,802,153	-	1,075,184	2,877,337	2,525,532	287,443	1.1	10.0	15.7%	20.6%	76%	0.9	7.6
Barnes Group Inc.	B	36.05	54,900,000	1,979,145	-	479,994	2,459,139	1,217,123	274,876	2.0	8.9	15.6%	20.6%	75%	1.5	6.7
Aerojet Rocketdyne Holdings, Inc.	AJRD	16.18	64,200,000	1,038,756	-	661,200	1,699,956	1,655,600	111,600	1.0	15.2	16.4%	20.6%	80%	0.8	12.1
Ducommun Inc.	DCO	20.07	11,080,000	222,376	-	260,035	482,411	697,047	38,355	0.7	12.6	18.5%	20.6%	90%	0.6	11.3

Case Study – Market Approach

Guideline Public Company - Adjusted Revenue Multiple (in 000's)
Exhibit 8 - Continued

			MVIC/ Revenue	MVIC/ EBITDA	Adjusted MVIC/ Revenue	Adjusted MVIC/ EBITDA
Low	482,411	697,047	0.7	6.365	0.5	4.6
90th Percentile	82,523,509	45,057,000	2.4	15.082	1.6	12.0
75th Percentile	37,995,630	24,390,750	1.7	11.793	1.2	7.8
25th Percentile	3,221,971	2,076,106	1.1	9.979	0.8	5.8
10th Percentile	1,835,644	1,260,971	0.9	8.963	0.6	5.0
High	103,128,910	97,009,000	3.8	21.067	2.2	12.5
Average	28,145,566	18,769,099	1.6	11.290	1.0	7.5
Median	13,476,175	7,453,000	1.5	10.328	0.9	7.0
Standard deviation	33,063,145	24,539,491	0.7	3.02	0.4	2.4
Coefficient of variance			0.44	0.27	0.41	0.32

Case Study – Market Approach

**PeopleCo Manufacturing Co.
Market Approach
Guideline Public Company - Value
Exhibit 7**

<u>Multiple</u>	<u>Subject Company</u>	<u>Adjusted Median Multiple</u>	<u>Indicated MVIC</u>
MVIC / Revenue	\$ 47,095	0.8509	40,074
MVIC / EBITDA	\$ 8,614	7.0123	60,404
Indicated MVIC (Non-Controlling, Marketable)			<u><u>\$ 50,239</u></u>
Control Premium			31%
Indicated MVIC (Controlling, Marketable)			<u><u>\$ 65,851</u></u>

Case Study – Reconciliation

**PeopleCo Manufacturing Co.
Reconciliation of Approaches
Exhibit 1**

<u>Method</u>	<u>Exhibit</u>	<u>Value</u>	<u>Weight</u>	<u>Weighted Value</u>
Indicated MVIC - Income Approach	Exhibit 2	\$ 57,926	33.3%	\$ 19,309
Indicated MVIC - Merger and Acquisition Method	Exhibit 5	\$ 70,798	33.3%	\$ 23,599
Indicated MVIC - Guideline Public Company Method	Exhibit 7	\$ 65,851	33.3%	\$ 21,950
Market Value of Invested Capital				<u>\$ 64,858</u>
Less: debt				<u>\$ (875)</u>
Market Value of Equity				<u>\$ 63,983</u>
<i><u>Value of a Minority Interest</u></i>				
Proportionate Value of a 1% Equity Interest				<u>\$ 640</u>
Less: Discount for Lack of Control - 23.7%				<u>(152)</u>
Indicated Value of a 1% Non-Controlling, Marketable Equity Interest				\$ 488
Less: Discount for Lack of Marketability - 20.0%				<u>(98)</u>
Fair Market Value of a 1% Non-Controlling, Non-Marketable Equity Interest				<u>\$ 390</u>
Total Percentage Discount				<u><u>-39.06%</u></u>

Questions?



Appendix – Financial Statements

PeopleCo Manufacturing Co.
Comparative Historical Financial Information
Balance Sheet (in 000's)
Exhibit 9

Assets	12/31/12	12/31/13	12/31/14	12/31/15	12/31/12	12/31/13	12/31/14	12/31/15
Current Assets:								
Cash	\$ 578	\$ 2,467	\$ 2,758	\$ 11,796	2.7%	10.3%	10.3%	34.1%
Accounts receivable	3,889	3,657	5,237	3,924	18.0%	15.3%	19.6%	11.3%
Inventory	8,683	8,837	9,472	9,812	40.3%	37.1%	35.4%	28.4%
Prepaid and other current assets	52	52	52	52	0.2%	0.2%	0.2%	0.2%
Total current assets	<u>13,202</u>	<u>15,013</u>	<u>17,519</u>	<u>25,584</u>	<u>61.3%</u>	<u>63.0%</u>	<u>65.4%</u>	<u>74.0%</u>
Net property and equipment	8,235	8,715	9,151	8,881	38.2%	36.5%	34.2%	25.7%
Other Assets	117	117	117	117	0.5%	0.5%	0.4%	0.3%
Total Assets	<u>\$ 21,554</u>	<u>\$ 23,845</u>	<u>\$ 26,787</u>	<u>\$ 34,582</u>	<u>100.0%</u>	<u>100.0%</u>	<u>100.0%</u>	<u>100.0%</u>
Liabilities and Equity								
Current Liabilities:								
Accounts payable	\$ 1,715	\$ 2,167	\$ 2,204	\$ 2,512	8.0%	9.1%	8.2%	7.3%
Accrued expenses	225	269	276	288	1.0%	1.1%	1.0%	0.8%
Deferred revenue	4,251	5,181	6,128	7,849	19.7%	21.7%	22.9%	22.7%
Bank line of credit	1,750	950	-	-	8.1%	4.0%	0.0%	0.0%
Total current liabilities	<u>7,941</u>	<u>8,567</u>	<u>8,608</u>	<u>10,649</u>	<u>36.8%</u>	<u>35.9%</u>	<u>32.1%</u>	<u>30.8%</u>
Other Liabilities:								
Term loan	2,975	2,275	1,575	875	13.8%	9.5%	5.9%	2.5%
Mortgage	5,177	5,055	4,925	4,786	24.0%	21.2%	18.4%	13.8%
Total other liabilities	<u>8,152</u>	<u>7,330</u>	<u>6,500</u>	<u>5,661</u>	<u>37.8%</u>	<u>30.7%</u>	<u>24.3%</u>	<u>16.4%</u>
Total Liabilities	<u>16,093</u>	<u>15,897</u>	<u>15,108</u>	<u>16,310</u>	<u>74.7%</u>	<u>66.7%</u>	<u>56.4%</u>	<u>47.2%</u>
Shareholder's Equity								
Common equity	1	1	1	1	0.0%	0.0%	0.0%	0.0%
Retained earnings	5,460	7,947	11,678	18,271	25.3%	33.3%	43.6%	52.8%
Total Shareholder's Equity	<u>5,461</u>	<u>7,948</u>	<u>11,679</u>	<u>18,272</u>	<u>25.3%</u>	<u>33.3%</u>	<u>43.6%</u>	<u>52.8%</u>
Total Liabilities and Equity	<u>\$ 21,554</u>	<u>\$ 23,845</u>	<u>\$ 26,787</u>	<u>\$ 34,582</u>	<u>100.0%</u>	<u>100.0%</u>	<u>100.0%</u>	<u>100.0%</u>

Source: Federal Tax Returns and 2015 Estimates

Appendix – Financial Statements

PeopleCo Manufacturing Co.
Comparative Historical Financial Information
Statements of Income (in 000's)
Exhibit 10

	12/31/12	12/31/13	12/31/14	12/31/15	12/31/12	12/31/13	12/31/14	12/31/15
Revenue	\$ 32,563	\$ 36,569	\$ 40,116	\$ 47,095	100.0%	100.0%	100.0%	100.0%
Cost of goods sold	22,045	26,000	27,359	30,141	67.7%	71.1%	68.2%	64.0%
Gross Profit	10,518	10,569	12,757	16,954	32.3%	28.9%	31.8%	36.0%
Owners' Compensation	850	850	850	850	2.6%	2.3%	2.1%	1.8%
Operating Expenses	6,212	6,010	6,815	8,097	19.1%	16.4%	17.0%	17.2%
Depreciation and Amortization	549	720	913	1,020	1.7%	2.0%	2.3%	2.2%
Total Operating Expenses	7,611	7,580	8,578	9,967	23.4%	20.7%	21.4%	21.2%
Net Operating Income	2,907	2,989	4,179	6,987	8.9%	8.2%	10.4%	14.8%
Other income and (expenses):								
Interest expense	(497)	(502)	(448)	(394)	-1.5%	-1.4%	-1.1%	-0.8%
Net other income/(expense)	(497)	(502)	(448)	(394)	-1.5%	-1.4%	-1.1%	-0.8%
Net Income before tax	\$ 2,410	\$ 2,487	\$ 3,731	\$ 6,593	7.4%	6.8%	9.3%	14.0%
Taxes	-	-	-	-				
Net Income after tax	\$ 2,410	\$ 2,487	\$ 3,731	\$ 6,593				

Source: Federal Tax Returns and 2015 Estimates

Appendix – Financial Statements

PeopleCo Manufacturing Co.
Comparative Historical Financial Information
Statements of Cash Flows
Exhibit 11

	<u>12/31/13</u>	<u>12/31/14</u>	<u>12/31/15</u>
Cash Flows from Operating Activities			
Net income	\$ 2,487	\$ 3,731	\$ 6,593
Adjustments to reconcile net income to net cash provided by operating activities:			
Non cash items	720	913	1,020
Change in cash resulting from change in:			
Accounts receivable, net	233	(1,580)	1,313
Inventory	(154)	(634)	(340)
Prepaid expenses	-	-	-
Accounts payable, trade	452	37	308
Accrued expenses	44	6	12
Deferred revenue	929	948	1,721
Net cash provided by operating activities	<u>4,711</u>	<u>3,421</u>	<u>10,627</u>
Cash Flows from Investing Activities			
Purchases of property and equipment	<u>(1,200)</u>	<u>(1,350)</u>	<u>(750)</u>
Net cash provided by investing activities	<u>(1,200)</u>	<u>(1,350)</u>	<u>(750)</u>
Cash Flows from Financing Activities			
Other assets	-	-	-
Net repayments on line of credit	(800)	(950)	-
Net repayments on term loan	(700)	(700)	(700)
Net repayments on mortgage	<u>(122)</u>	<u>(130)</u>	<u>(139)</u>
Net cash provided by investing activities	<u>(1,622)</u>	<u>(1,780)</u>	<u>(839)</u>
Net Increase (Decrease) in Cash	1,889	291	9,038
Cash and cash equivalents - Beginning of Year	<u>578</u>	<u>2,467</u>	<u>2,758</u>
Cash and cash equivalents - End of Year	<u>\$ 2,467</u>	<u>\$ 2,758</u>	<u>\$ 11,796</u>

Source: Federal Tax Returns and 2015 Estimates